I arrived in Tokyo on June 2, 2010—the day Prime Minister Yukio Hatoyama announced his resignation. The next few days of discussions were among the most interesting I have had in Japan. But at the end of the trip, I was left with more questions than answers about the future of Japanese politics.

Three Big Questions

QUESTION ONE: WILL THIS GOVERNMENT SURVIVE? Changing prime ministers every year rattles markets and complicates management of the U.S.-Japan alliance. Kan quickly won a bump for the Democratic Party of Japan (DPJ) in the polls just by not being Hatoyama. He may gain further in the polls if he continues providing an anti-Ichiro Ozawa flavor in his cabinet appointments and coalition politics. Some Liberal Democratic Party (LDP) politicians think Kan will take a page out of former prime minister Junichiro Koizumi’s book by battling the antireformers within his own party while relying on their numbers to stay in power. That strategy worked brilliantly for Koizumi as the media focused on the drama for reform within the ruling LDP and ignored the hapless DPJ. Kan will also be helped by the Japanese public’s continued distrust of the LDP and by the fact that he is the first prime minister since Tomiichi Murayama (1994–1995) who did not actually come from the LDP.

That said, Kan has real challenges. He may try Koizumi’s strategy of dramatically fighting for reform within his own party, but he comes with none of the core principles and ideological consistency that gave Koizumi so much credibility with the voters. Kan is a man of the left (some say the far left, given his activist roots), but his signature political trait now is pragmatism and flexibility. That means he will avoid the dreamy policy prescriptions and gratuitous friction with business and the United States that plagued his predecessor, but it may not be enough to forge a mandate within the party or with the public. The other problem that will plague Kan is Ichiro Ozawa. For now Ozawa has retreated to his cave like a wounded bear, but he still has 150 supporters and a famous appetite for vengeance. Kan will do better in the July 11 Upper House election if he distances himself from Ozawa, but that will also make Ozawa more dangerous when Kan has to run for party president again in September. Kan is leaning toward an anti-Ozawa line but is clearly trying to keep both options open. We will see if that works.

Lower House members are rendering an early verdict on Kan’s chances by making frequent visits to their districts to brace for a possible dissolution and election as early as this fall. Is that likely? Maybe not, but as one politician told me, “The political situation is just not stable…we are all hedging.”

QUESTION TWO: WILL THE FUTENMA AGREEMENT HOLD? Kan told President Obama in their first phone call that he would stick with his predecessor’s agreement to build the Futenma replacement facility (FRF) near Henoko in Okinawa, along the lines of the original U.S.-Japan agreement. There is now a general consensus in the leadership of the DPJ—to include Kan—that Hatoyama made a big mistake last year by reopening the Futenma issue and encouraging the anti-base movement in Okinawa. Now implementation of the agreement is going to be much more difficult after eight months of flip-flopping and broken promises. If Kan had a magic wand to make one issue go away, he would probably choose Futenma. Implementation will be possible only if Kan’s office does some heavy lifting to rebuild support in Okinawa. If the November gubernatorial election produces an anti-base governor, Kan would be forced to consider a tokusoho (special measures law) to overrule the prefectural government’s opposition. That would be profoundly distasteful for the former antigovernment activist, but the issue could also split the DPJ and spark realignment if Kan backs down.

One thing is clear: assertions in the American blogosphere that there will be “payback” against the United States for Hatoyama’s downfall do not resonate at all with the Japanese press. However, the Futenma issue does still have a live fuse.
QUESTION THREE: CAN KAN GROW THE ECONOMY? Before becoming finance minister, Kan knew so little about economic policy that he reportedly purchased a copy of Paul Samuelson’s classic introductory text so he could learn what the “multiplier effect” is. His famous antibureaucracy rhetoric aside, Kan has come to rely almost totally on the Ministry of Finance experts and economic realists within the DPJ like Motohisa Furukawa. Kan has signaled that he is prepared to raise the consumption tax and cut corporate taxes in order to get the right mix of growth and fiscal stability. Keidanren (the Japan Business Federation) smells a rat, suspecting that the Tax Bureau has convinced Kan to cut nominal tax rates while actually eliminating write-offs in order to increase the effective tax rate on bigger firms. This could lead to a showdown between a big-government DPJ and “small-government” conservatives in the LDP and other parties. However, that would be a much healthier and more realistic economic policy debate than the DPJ’s original proposals to hand out cash to voters and call it “reform.” Moreover, with Kan there is now a general consensus between the DPJ and LDP on the need to increase the consumption tax and focus on Japan’s fiscal stability. It will be interesting to see if Kan capitalizes on that to forge a bipartisan bill on fiscal and tax reform in his first year.

Of course, this does not mean that Kan actually has an economic growth strategy yet. Political instability and further realignment could make it difficult to wield fiscal and monetary tools delicately. One troubling sign was Kan’s pledge to move ahead with legislation that would roll back Koizumi’s privatization of the postal savings system, a move that keeps economic nationalist Shizuka Kamei in the coalition and nets the DPJ some 40,000 postal votes but also a step that would create a behemoth in the market that many economic realists worry could bring international WTO cases against Japan and increase financial stability risks.

Three Reassuring Developments

These are three big questions, to be sure. But after a week wandering through the bars of Akasaka and the halls of Kasumigaseki and Otemachi, there are also three things that seem quite reassuring in Kan’s early debut.

First, post-Hatoyama coalitions are now likely to be more supportive of the U.S.-Japan security relationship overall, in spite of Kan’s own roots on the left. The Social Democratic Party (SDP) is out of the picture, and in the emerging DPJ balance of power, the biggest winner has been Seiji Maehara and his fellow national security realists. Look for the August report of the National Defense Policy Advisory Panel to signal a defense strategy generally in line with the earlier panel report prepared by the last LDP government. This will also provide a better connection for strategic dialogue and planning with Washington.

Second, Kan appears set to improve DPJ governance. Under Hatoyama, the DPJ tried to forge “politician-led” policymaking. What happened instead was chaos. The cabinet ministers tried to make too many decisions themselves and ended up deluged in red tape and minor paper work, while senior bureaucrats sat back and said “I told you so.” Meanwhile, the interministerial-coordination process broke down as ministers and junior ministers went public with their policy debates. Finally, Ozawa ran a nontransparent dual government out of the DPJ, which he used to reverse cabinet decisions that did not fit his electoral strategy. Kan is well aware of the result and has taken early steps to correct the problem: reestablishing a more transparent policy deliberation organ (seichokai) within the DPJ; appointing a disciplinarian as his chief cabinet secretary to keep ministers in line; and relying on skilled bureaucrats for advice rather than the collection of TV pundits and playwrights who surrounded Hatoyama. Polls show that half the Japanese public had lost faith in the DPJ’s ability to govern effectively, and Kan aims to fix that.

Finally, it is striking how confident the emerging generation of political leaders in Japan remains about its ability to revitalize foreign and economic policy. That is certainly true in the DPJ, but also in the LDP and in the newer conservative parties like Yoshimi Watanabe’s “Your Party.” These new leaders generally recognize that Japan is still stuck at the halfway point of political realignment and are prepared for elections and even further fluidity until they get it right. As disheartening as the rapid change of prime ministers looks from the outside, those waiting in the wings see all of this as a necessary process of creative destruction. Several politicians reminded me that it took two decades for the Meiji Restoration to stabilize—but then quickly acknowledged that Japan doesn’t have that long.

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